

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 FS-01 ABF-01 FEA-02 SCI-06 INT-08

COME-00 TRSE-00 OMB-01 L-03 CIAE-00 DODE-00 INR-10

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TO AMEMBASSY CARACAS PRIORITY

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E.O. 11652: N/A

TAGS: ENRG, VE, US

SUBJ: U.S. GENERAL ACCOUNT OFFICE REPORT DISCOUNTING

POSSIBILITY OF U.S. VENEZUELAN AGREEMENT ON
EXPLOITATION OF ORINOCO PETROLEUM BELT

REF: CARACAS 933

THE FOLLOWING ARE THOSE PORTIONS OF THE TEXT OF THE GAO
REPORT DEALING WITH VENEZUELA:

QUOTE: THE UNITED STATES IMPORTED ABOUT 62 PERCENT OF
VENEZUELA'S 1972 OIL EXPORTS. THIS ACCOUNTED FOR ABOUT
ONE-THIRD OF ALL U.S. PETROLEUM IMPORTS AND 10 PERCENT OF
U.S. CONSUMPTION. HOWEVER, THE OIL COMPANIES HAVE LITTLE
INCENTIVE TO INVEST THE LARGE SUMS NEEDED TO SUSTAIN OR
INCREASE CONVENTIONAL OIL OUTPUTS BECAUSE MOST OIL CON-
CESSIONS WILL REVERT TO THE HOST GOVERNMENT BETWEEN 1983
AND 1985 UNDER THE PETROLEUM ASSETS REVERSION LAW OF 1971.

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ALTHOUGH PRODUCTION HAS ALREADY PEAKED OUT, VENEZUELA IS

EXPECTED TO CONTINUE TO PROVIDE AN IMPORTANT PART OF U.S. OIL REQUIREMENTS FROM ITS CONVENTIONAL SOURCES. NO EFFORTS ARE BEING MADE TO CONSUMMATE A GOVERNMENT-TO-GOVERNMENT AGREEMENT FOR A GUARANTEED SUPPLY OF CONVENTIONAL PETROLEUM.

A SECOND SOURCE OF A LARGE SUPPLY OF PETROLEUM LIES IN VENEZUELA'S TAR SANDS AREA. ALTHOUGH IT HAS NOT BEEN

EXPLOITED BECAUSE EXTRACTION COSTS ARE ESTIMATED TO BE MUCH HIGHER THAN THOSE FOR CONVENTIONAL OIL, SEVERAL U.S. OIL COMPANIES HAVE INDICATED CONSIDERABLE INTEREST IN DEVELOPING THIS ALTERNATIVE SOURCE.

WITH THE SUBSTANTIAL FUNDING AND THE LONG LEADTIMES REQUIRED TO REACH FULL PRODUCTION, OIL COMPANIES WANTED ASSURANCES THAT THEIR INVESTMENT IN TAR SANDS PRODUCTION WOULD NOT BE NATIONALIZED IN 1983, ALONG WITH THE CONVENTIONAL PETROLEUM CONCESSIONS, OR AT SOME LATER DATE. THUS, THE UNITED STATES BEGAN DISCUSSING WITH VENEZUELA A GOVERNMENT-TO-GOVERNMENT TREATY FOR DEVELOPING THE TAR SANDS OIL (HEAVY OIL). IN RETURN FOR INVESTMENT AND OTHER ASSURANCES, THE UNITED STATES WOULD PROVIDE THE VENEZUELAN WITH PREFERENTIAL TREATMENT IN THE U.S. MARKET. WE WERE ADVISED BY A DEPARTMENT OF STATE OFFICIAL IN JANUARY 1974 THAT SUCH A TREATY IS NOT IMMINENT UNDER THE PRESENT CONDITIONS. UNQUOTE.

QUOTE: THE DEPARTMENT HAS TRIED TO CONCLUDE AGREEMENTS WITH CANADA AND VENEZUELA AND TO COORDINATE ITS EFFORTS WITH THOSE OF OTHER OIL-CONSUMING COUNTRIES. HOWEVER, WESTERN HEMISPHERE COUNTRIES CANNOT MEET U.S. OIL NEEDS, AND OTHER MAJOR CONSUMING COUNTRIES HAVE ALREADY NEGOTIATED AGREEMENTS WITH CERTAIN MIDDLE EAST COUNTRIES FOR A CONTINUING SUPPLY OF AT LEAST A PORTION OF THEIR PETROLEUM REQUIREMENTS. DEPARTMENT PROMOTION OF TRADE AND INVESTMENT ARRANGEMENTS WITH MIDDLE EAST COUNTRIES HAS BEEN LIMITED CONSIDERING THE LARGE MONETARY RESERVES OF THESE COUNTRIES. UNQUOTE. KISSINGER

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